

# International Aid

## Key issues and Players

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PAD 6838/ 7865

Lecture 6

# Overview

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- ❑ What is International Aid?
- ❑ Why is Aid Given?
- ❑ What are the Vehicles of Aid Provision?
- ❑ Historical Background
- ❑ What are Different Forms of Aid?
- ❑ What are Overall Aid Trends?
- ❑ What are U.S. Aid Trends?
- ❑ Can Developed Countries Afford More?

# What is International Aid?

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- A charitable donation by generous rich nations (grant)
  - With no strings attached
  - Given to poor countries so that poor countries can meet the basic needs of their citizens
- A loan provided by a government or an international agency (soft loan)
  - Needs to be paid back within a specified period

# Why is Aid Given?

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- Moral imperative and enlightened self interest
- Humanitarian Reasons
  - Moral principle that wealthy governments have an obligation to assist those in need (including those beyond their borders)
- Corrective justice
  - Aid given to former colonies
- To end conflicts

# Why is aid given?

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- Political strategic purposes
  - buying allies during the Cold War
  - preserving own territorial and political security
  - ensuring cooperation of strategically important allies
  - creating a more stable global order

# Why is Aid given?

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## □ Economic Reasons

- purpose of opening new markets for goods
  - providing investment opportunities
  - becoming trading partners
- In some cases, aid is tied to recipient country's purchase of the donor country's goods or services

# Why is Aid given?

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## □ Religious Reasons

- We analyse every project, every programme we undertake, to make sure that within that programme evangelism is a significant component. We cannot feed individuals and then let them go to hell.
  - President of the World Vision until June 30, 1987; From Lords of Poverty (p.9)

# Vehicles of Aid

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## □ Bilateral Aid

- A direct transfer from a donor government to a recipient government



## □ Multilateral Aid

- A transfer from international organizations to a recipient government





# Vehicles of Aid

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- Aid through NGOs and Private Agencies
  - A transfer from an NGO or a private agency toward a specific purpose
  - Some are supported by donor governments and multilateral agencies

**FORD FOUNDATION**  
Strengthen democratic values, reduce poverty and injustice,  
promote international cooperation and advance human achievement



# Aid History

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## □ MULTILATERAL ASSISTANCE

- Origins dating back to the League of Nations
- founded after the Paris Peace Conference of 1919 following WWI
- goals included disarmament; preventing war through collective security; settling disputes between countries through negotiation and diplomacy; and improving global welfare
- provided technical experts to countries in need in the areas of health, education, transport, and rural development (1929 to 1941)
- replaced by the U.N. after the WW II

# History of Aid

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## □ MULTILATERAL ASSISTANCE

- Belief that the idea of aid originated at the end of the WW II for reconstruction of Europe (1944)
  - International Bank for Reconstruction and Development (World Bank) to raise capital for the reconstruction of Europe and Japan (economic development)
  - International Monetary Fund to promote international monetary stability and help with debt relief
  - First loans for assistance in developing countries were to Latin American countries (late 1940s)

# History of Aid

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## □ BILATERAL ASSISTANCE

- U.S. (1948): Establishment of the Economic Cooperation Administration to promote the Marshall Plan (Aim: To assist the reconstruction of Western Europe in the face of advancing communism in Eastern Europe)
    - the real enemies of democracy are "hunger, poverty, desperation, and chaos" (General George C. Marshall, then U.S. Secretary of State)
  - President Harry Truman's announcement of foreign aid as a component of U.S. foreign policy in his inauguration speech in 1949
  - Establishment of the USAID in 1961 by President John Kennedy (also established the Peace Corps)
- Europe (1960s): launched development assistance programs in their former colonies in Asia and Africa (e.g. France and Britain)

# History of Aid

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- Aid by NGOs: Between WW I and II in response to the victims of war and conflict
  - Save the Children to help the child victims of the WW I (1919)
  - Oxfam to provide famine relief to victims of the Greek Civil War (1942)
  - CARE in response to the victims of the Korean War (1946)
- Before that:
  - Red Cross (1863)
  - Christian missions

# History of Aid

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- 1950s: Post war re-construction
- 1960s: Decade of industrialization
- 1970s: Shift to poverty focus
- 1980s: Structural adjustment (lost age of development?)
- 1990s: Good governance
- 2000s: Glamor Aid?

# Forms of Aid

Type of Aid	Description/ Purpose	Donor Agency	Example
1. Project Aid	A grant or loan provided to a government agency or NGO, designated for a specific project purpose	Bilateral and multilateral donors, NGOs	A grant from the Japanese government for the construction of permanent housing for tsunami victims in Indonesia  A loan from the World Bank for construction of a dam in China

# Forms of Aid

Type of Aid	Description/ Purpose	Donor Agency	Example
2. Program Aid	A policy-based loan given to a recipient government to create certain economic conditions in that country, or to support balance of Payments	Bilateral and multilateral donors	A structural adjustment loan provided by the IMF to Turkey (with a cluster of policy descriptions on market liberalizing policies)
3. Technical Assistance	Provides equipment and/or experts for a specific sector or outcome	Bilateral and multilateral donors; NGOs	A team of UN engineers sent to Rio, Brazil to set up a water supply project in favelas



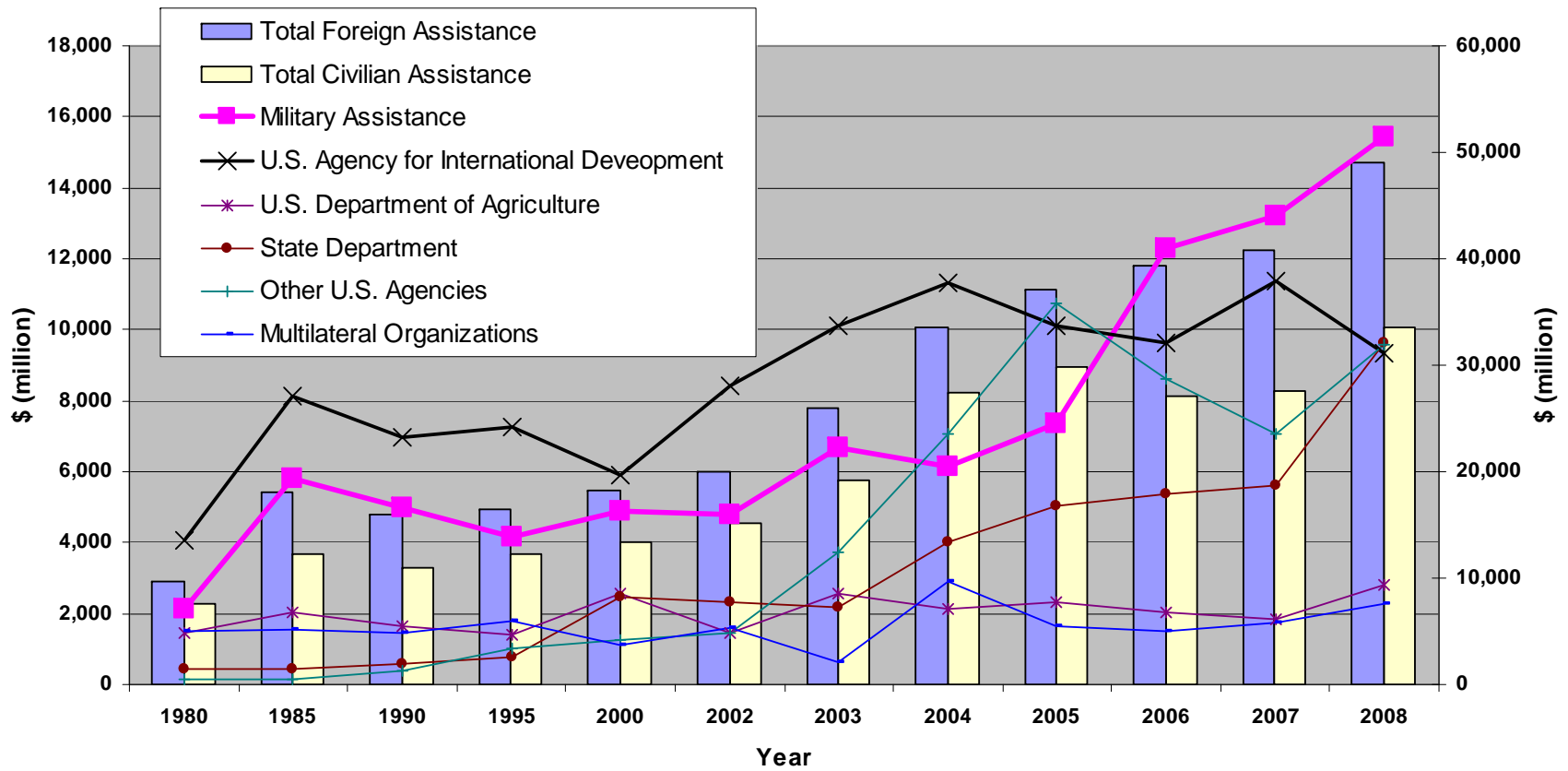
# Forms of Aid

Type of Aid	Description/ Purpose	Donor Agency	Example
4. Humanitarian Assistance	Provides grants, materials, food supplies to meet the immediate demands of disaster victims	Bilateral and multilateral donors; NGOs	Surplus US agricultural commodities (e.g. beans, corn) sent to an NGO's feeding center at a refugee camp in Pakistan
5. Military Aid	To strengthen the military of the recipient government	Bilateral donors	A military assistance program grant of US military equipment sold to Poland at lower rates

# Forms of Aid

Type of Aid	Description/ Purpose	Donor Agency	Example
6. Debt Relief	Forgiveness of debts that are actually being serviced	Bilateral and multilateral donors	World Bank's debt relief to Hevaily Indebted Poor Countries (HIPCs)

# US Aid



# Where is US Aid going?

## Foreign Aid | Top recipients of USAID economic assistance

### AID IN MILLIONS

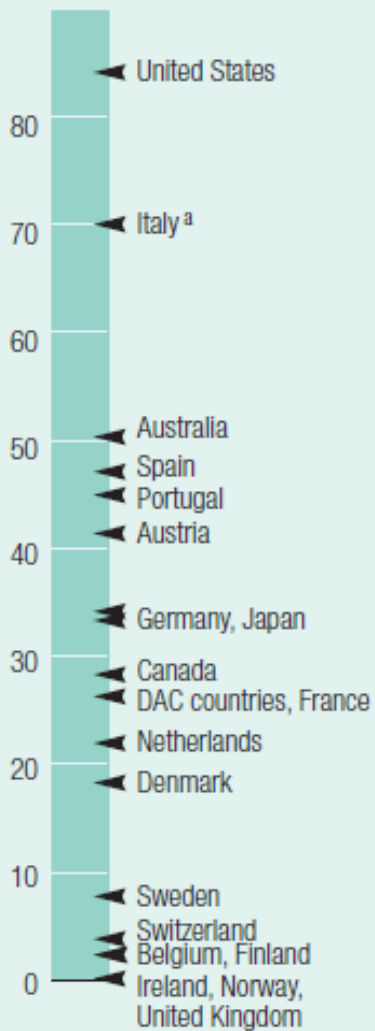
Afghanistan	1,459.56	Kenya	515.24	South Africa	324.36	Tanzania	204.37
Pakistan	1,084.75	Sudan	467.96	Nigeria	290.74	Zambia	182.17
West Bank/Gaza	798.50	Iraq	443.52	Uganda	273.19	Mozambique	178.10
Egypt	551.26	Ethiopia	427.74	Colombia	225.89	Indonesia	177.12
Jordan	515.75	Georgia	331.34	Haiti	224.21	Liberia	138.86

Note: Appropriations made in fiscal year ending Sept. 30, 2009  
Source: USAID



**Figure 3.13 The tied aid league**

Tied aid to the least developed countries  
Share of total ODA, 2002–03 average (%)

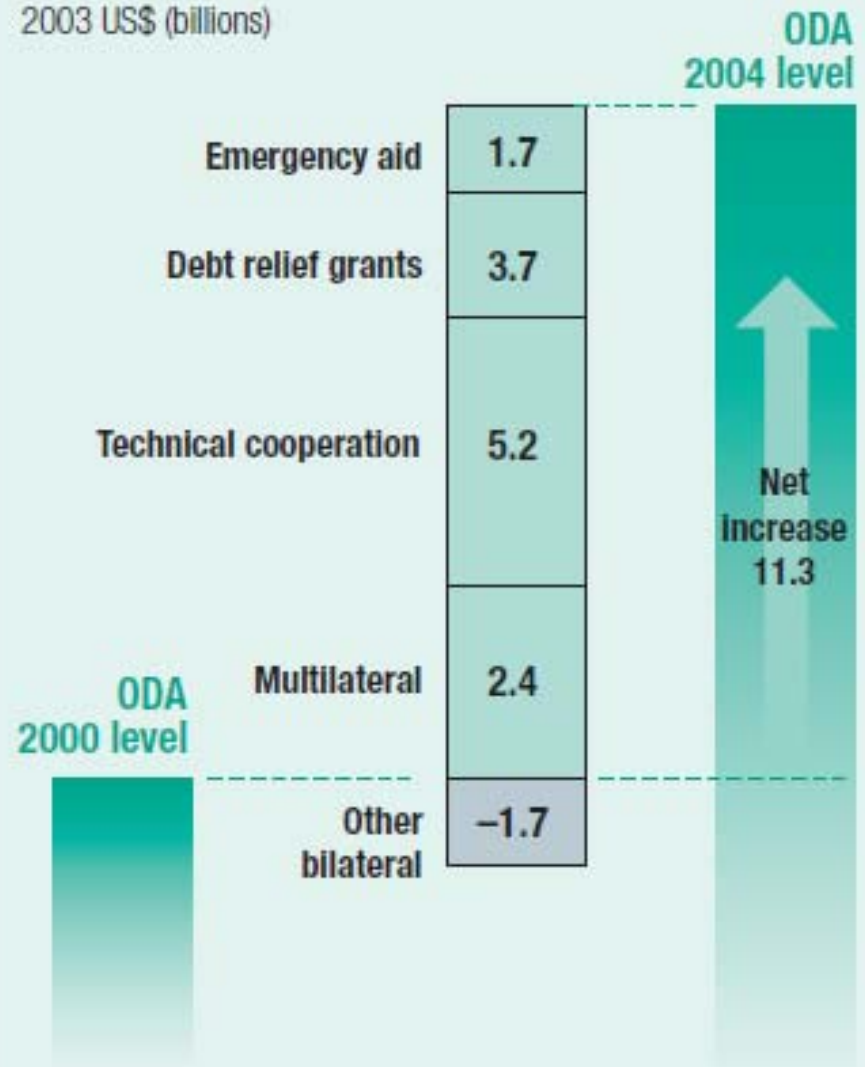


a. Data refer to the average for 1999–2001 ratios.  
Source: OECD/DAC 2004b, 2005e.

## Forms of Aid

**Figure 3.7 The composition of increased aid**

2003 US\$ (billions)



Source: OECD/DAC 2005f.

**Figure 3.10**

**Military spending vs. development assistance**

Spending by OECD donors, 2003  
(US\$ billions)



Source: Development Initiatives 2005d.

**Table 3.1**

**Military expenditure dwarfs official development assistance in rich countries**

Share of government spending, 2003 (%)

Country	ODA	Military expenditure
Australia	1.4	10.7
Austria	1.1	4.3
Belgium	2.7	5.7
Canada	1.2	6.3
Denmark	3.1	5.7
Finland	1.6	5.4
France	1.7	10.7
Germany	1.4	7.3
Greece	1.4	26.5
Ireland	2.1	4.6
Italy	0.9	9.8
Japan	1.2	5.7
Luxembourg	3.9	4.8
Netherlands	3.2	6.5
New Zealand	1.2	6.3
Norway	4.1	8.9
Portugal	1.0	10.0
Spain	1.3	6.7
Sweden	2.8	6.4
Switzerland	3.5	8.5
United Kingdom	1.6	13.3
United States	1.0	25.0

**Military expenditure vs Development Aid**

# What are Different Forms of Aid?

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## QUESTIONS

1. A loan from the U.S. government for construction of a school in Indonesia is considered \_\_\_\_\_?

2. A set of computers donated to schools in Senegal by Bill and Melinda Gates Foundation is considered \_\_\_\_\_?

3. A structural adjustment loan given to Argentina by the International Monetary Fund is considered \_\_\_\_\_?

# Trends in Aid

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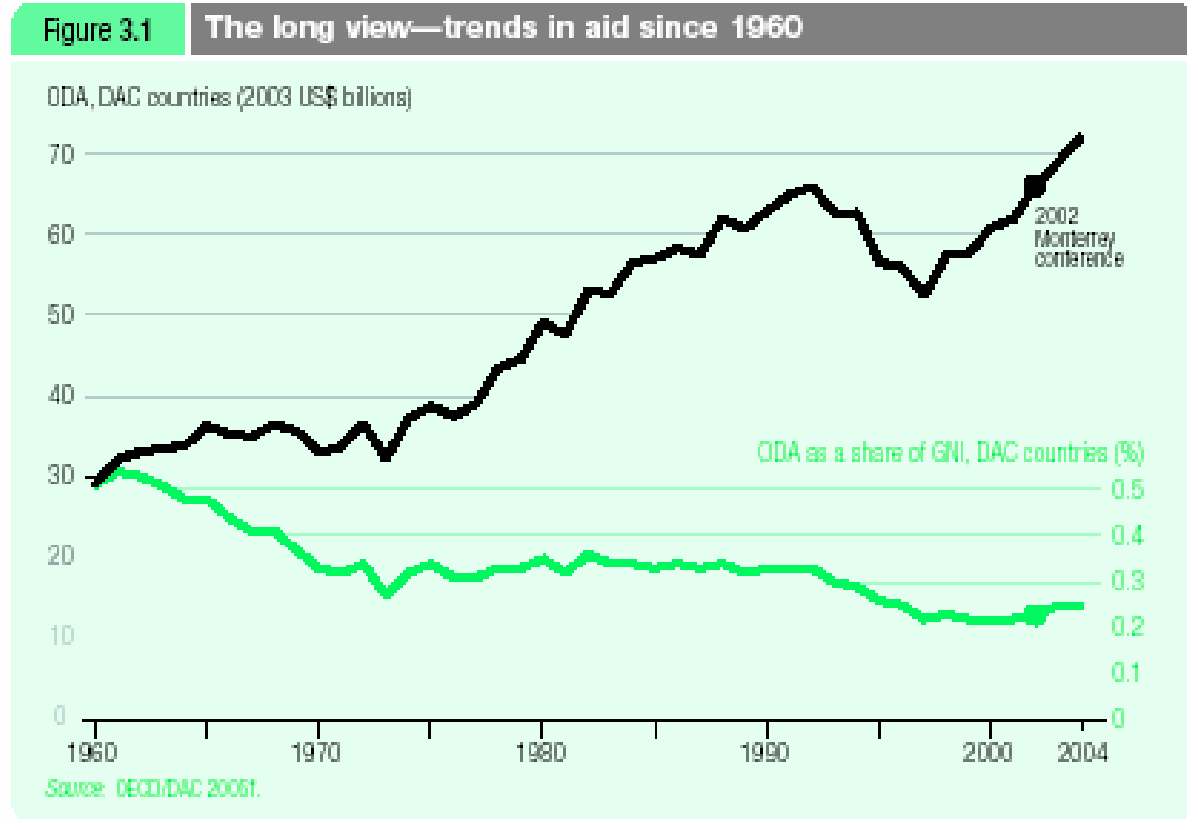
## **Official (Overseas) Development Assistance (ODA)**

- ❑ Transfers from industrialized country governments to governments and other institutions in the developing world
- ❑ Transfers in the forms of loans and grants
- ❑ Both through bilateral and multilateral agencies
- ❑ Excludes aid given by NGOs and the private sector
- ❑ Over 95% of ODA comes from members of the Development Assistance Committee (DAC) of the OECD—deals with cooperation with developing countries



# What are Overall Aid Trends?

- Increase in ODA (\$ amount)
- Decline in ODA as a percentage of GNI



UNDP. 2005. Human Development Report

# Can Developed Countries Afford More?

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- Emerging International consensus on ending poverty (emphasis on human development)
- international debt relief
- Increasing aid as a % of GNI among developed countries (0.5% in 2010 to 0.7% by 2015)
- **Should international aid be provided?**

# Criticisms of aid

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- ❑ Aid leads to corruption
- ❑ Aid does not increase economic growth (Dutch disease)
- ❑ Aid immiserates the poor
- ❑ Aid impacts public good provision negatively

# Alternatives to Aid

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- Alternatives (Moyo):
  - Tap international bond market
  - Invest in infrastructure
  - Agricultural free trade
  - Financial intermediation (microfinance)
- Property rights
- Ease of international remittances
- Technology as a lever
  - Technology led growth in Asia
  - Mobile banking in Africa
  - Lagging Latin American regions